STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

Date: April 27, 2016

To: School District Administrators

Local Note Counsel for potential SAN borrowers

From: John Barton, Director, Authority Finance Division

RE: Michigan Finance Authority's August 2016 SAN Loan Program

The Michigan Finance Authority's (MFA) State Aid Note Loan Program (SAN) is open to all School Districts (Districts) and provides economic benefits through reduced borrowing costs. To date, the SAN Program has provided nearly $15 billion in short-term cash flow loans to Michigan schools.

Each year, the MFA receives several hundred applications from Districts indicating their intent to participate. Based on the applications, the MFA sizes the SAN and reserves borrowing capacity. Each year a large number of Districts withdraw after the MFA has reserved capacity. As a result, all Districts end up paying a higher cost of funds to reserve this unutilized capacity. To address this issue and maintain the SAN's low cost, a question is included on the application to identify those Districts that are interested in the SAN, but are also seeking competitive bids for their borrowing from a financial institution (a "Dual Bidder District"). Dual Bidder Districts will be required to **affirmatively opt into** the SAN after the interest rate announcement is made at the **end of July**. A Dual Bidder District's participation in the SAN will be subject to available capacity, on a first-come, first-served basis.

Summary of SAN Parameters – No changes from 2015 SAN

1) The overall borrowing limit will be equal to 55% of state aid.

    a. Districts borrowing less than 50% of state aid in 2015 will not be permitted to borrow more than 50% of their state aid for the 2016 loan cycle.

    b. Those Districts borrowing between 50% and 55% of their state aid in 2015 will be held to the same percentage for 2016.

2) The maximum amount which may be borrowed, as a percentage of state school aid, through the **no set-aside** program, without amortization, will be **42%.**

    a. Districts borrowing less than 35% of state aid in the 2015 **no set-aside** program will not be permitted to exceed 35% in the 2016 **no set-aside** program.

430 W. ALLEGAN STREET • LANSING, MICHIGAN 48922
www.michigan.gov/treasury • 517-335-0994

b. Those Districts borrowing between 35% and 42% of state aid in the 2015 **no set-aside** program will be held to the same percentage for 2016.

c. Any amounts borrowed in excess of the limits described in 2a and 2b, up to the applicable limits described in #1, may either amortize or be segregated into the set-aside program, determined at the discretion of the MFA.

d. In general, it is expected a District will not exceed their 2015 **no set-aside** borrowing percentage for 2016.

e. Set asides must have a monthly minimum debt service coverage ratio of 2.0.

3) New borrowers, meaning a District that did not borrow through the MFA's 2015 SAN, will be required to amortize at least 50% of their proposed borrowing.

4) Minor exceptions to the above may be considered on a case-by-case basis.

5) All Districts, whether participating in the set-aside and no set-aside program, will be required to pledge 100% of their state school aid, October through August, or until the note is repaid, whichever is longer. The MFA will continue to review and approve, if appropriate, subordinate state aid notes issued by participants.

Application materials for the SAN are expected to be available in late May. For questions related to the SAN, please contact the SAN team at (517) 335-0994.

cc: Mary Martin, Director of Bureau of State and Authority Finance
David Boyne, Assistant Director, Authority Finance Division